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## IX. INDIRECT COSTS

Indirect cost allocation is a cost accounting process through which administrative support costs are developed and distributed to the agencies receiving the benefit of such support in proportion to their relative use of the services provided. Administrative support and/or the provision of centralized services exist at both the statewide and agency level, and may comprise activities such as budgeting, accounting, auditing, facilities management, administration, personnel and information technology services. Indirect costs are developed and distributed through an annually updated Statewide Cost Allocation Plan (SWCAP) and the development of individual departmental indirect cost rate proposals. (29 Del. C. §6102(k))

### A. STATEWIDE INDIRECT COST ALLOCATION PLAN (SWCAP)

Each fiscal year the Office of Management and Budget will oversee the preparation, submission and negotiations of a statewide cost allocation plan with the federal agency designated as the state's cognizant agency (currently the Department of Health and Human Services).

The plan will be prepared on a budgetary basis using a multiple rate methodology. The plan will identify both the category and amount of statewide central service costs traceable and attributable to state agencies and form the basis for preparation of agency indirect cost rate proposals.

### B. INDIRECT COST RATE PROPOSALS

By April 15 of each fiscal year, the Office of Management and Budget will oversee the preparation, submission and negotiation with the designated federal cognizant agencies, departmental indirect cost rate proposals for those state agencies that administer significant federal funds.

Departmental indirect cost rate proposals will be prepared on a budgetary basis, using a multiple rate methodology. Rates developed under this section will distinguish between statewide indirect costs and departmental indirect costs at the divisional or sectional levels of each organization, as appropriate.

### C. INDIRECT COST RECOVERIES

#### 1. Statewide Indirect Costs

The portion of indirect cost recoveries identifiable as arising from statewide indirect costs will be recovered from federal grants and returned to the Office of Management and Budget.

#### 2. Departmental Indirect Cost Recoveries

The portion of indirect cost recoveries identifiable as arising from departmental indirect costs may be retained by the state agency for their discretionary use or as may be authorized by the Annual Appropriations Act.

#### 3. Direct Bill Recoveries

Central service allocations for audit activities of the State Auditor, personnel activities of the Office of Management and Budget, information technology services provided by the Department of Technology and Information, and the services of Printing and Publishing arising from the current period and identifiable by state Special Fund activities will be recovered from state agencies, without exception, and turned over to the appropriate central service agency.

#### 4. Budget Submissions

Indirect costs shall be provided for in all budgetary submissions accompanying federal funding requests to the Delaware State Clearinghouse Committee.

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Exceptions to this policy will be made when the federal program does not allow for indirect cost recovery. In such instances, it shall be noted on the budgetary submissions.

Current indirect cost rates will be retained on file by the Office of Management and Budget, Chief of Financial Management Services, for all state agencies. The indirect cost rates on file must be budgeted and claimed in all federal fund applications and will be reviewed by the Office of Management and Budget.

#### **5. Agencies Without Indirect Cost Rate Proposals**

State agencies which administer only limited federal programs which do not warrant the development of formal indirect cost rate proposals are still required to identify and budget for the appropriate amount of both statewide and agency indirect costs in grant submissions to the Office of Management and Budget if the agency intends to recover any indirect costs.

Budgeted dollar amounts should be derived for the application of current and approved indirect cost rates to appropriate allocation bases, typically either direct salaries chargeable to the Federal program or total federal program costs.

The Office of Management and Budget will provide assistance in making a fair determination of the portion of statewide indirect costs applicable to federally funded activities when no formal indirect cost rate has been prepared for an agency.

Federal programs that do not allow indirect cost recoveries must still budget with approved rates for audit services and personnel services even if recoveries are not made.

#### **6. Payments to the Office of Management and Budget**

Indirect costs recovered from federal programs shall be transmitted to the Office of Management and Budget on at least a quarterly schedule.

#### **7. Public Education**

Public Education operations (Department of Education, local school districts and charter schools) are exempt from participation in the statewide portion at the Indirect Cost Program.

### **D. WAIVER OF PAYMENT OF INDIRECT COSTS**

No funds received under any federal program which allows indirect cost recovery will be exempt from the State's Indirect Cost Recovery Program without the expressed written approval of the Director of the Office of Management and Budget, Chief of Financial Management Services, and the involved agency head or secretary.

Waiver requests are to be made in writing to the Director of the Office of Management and Budget presenting the following information for review:

- Specific program identification;
- Program status, including:
  - Is it capped, level funded or cut?
  - \$ amounts involved
  - Impact of non-approval of waiver request
  - Future year outlook/considerations; and,
- If department is waiving recovery of departmental indirect costs.

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An approved waiver will apply to a single fiscal year only. Multi-year programs must be reviewed on an annual basis, and an updated waiver request processed if a waiver is needed.

No waivers will be accepted direct billed recoveries. These costs will be paid by direct disbursement from reimbursements received or other agency funds. Agencies not utilizing these services will not be assessed for these costs.

#### **E. FEDERAL AUDIT SET-ASIDE**

The state has established a process to set aside federal funds to cover the cost of that portion of the statewide single audit that includes the audit of federal grants.

Every agency and school district will budget for audit fees which will be collected by the Office of Management and Budget.

All agencies (with the exception of the Department of Transportation) which retain dollars for the intended use of the federal program will be responsible for payment of audit fees at a rate of three-tenths of one percent (.3%) of all federal funds received. If the funds represent either pass-through or contracted dollars, the participants will negotiate an agreement to determine who will be responsible for payment of the audit fees.

All school districts which receive federal grants will be responsible for payment of audit fees at a rate of five-tenths of one percent (.5%) of all federal funds received.

The Office of Management and Budget will be the responsible agency to pay all federal audit billings on behalf of the agencies (except the Department of Transportation) and school districts effective July 1, 1987.

#### **F. SUBGRANTS**

##### **1. Eligibility of Subgrantees**

State agencies who subgrant federal funds to other state agencies shall entertain requests for recovery of indirect costs by the subgrantee state agency if:

- Indirect costs are recoverable from the subgrant; and
- Indirect cost allocation to subgrantee federal programs is done in a manner consistent with federal cost principles.

##### **2. Agencies With Formal Indirect Cost Rates**

If the subgrantee agency has a formal indirect cost rate recognized by a cognizant federal agency, the grantor state agency may approve indirect costs charged to subgrants based upon submission of documentation that such rates exist.

##### **3. Agencies Without Formal Indirect Cost Rates**

If the subgrantee agency does not have a formal indirect cost rate, the grantor state agency is responsible for negotiating with the subgrantee agency for the application of indirect cost rates to the subgrant. A multiple rate methodology is desirable in these situations, but a single rate is acceptable if, by its use, indirect cost allocations to subgrants are not distorted or misrepresentative.

##### **4. Recovery of Statewide Costs**

In all cases of indirect cost recoveries from subgrants to other state agencies, the statewide portion of indirect costs applicable to the subgrantee state agency are recoverable by the Office of Management and Budget.

**5. External Agencies**

State agencies that subgrant federal funds or grant state funds to external private agencies or other governments are responsible for assuring that indirect costs claimed by such external agencies are fairly determined.